

CHAPTER 3**OVERVIEW AND OTHER ACCOMPANYING INFORMATION****★0301 INTRODUCTION**

★ 030101. The Overview of the reporting entity is the first part of the annual audited financial statement and is intended to reflect the standards prescribed in the Statement of Federal Financial Accounting Standards (SFFAS) Number (No.) 15, “Management’s Discussion and Analysis.” The Overview is an important vehicle for communicating the insights of the reporting entity manager; increasing the understandability and usefulness of the audited financial statements; and providing understandable and accessible information about the entity and its operations, service levels, successes, and challenges. The Overview also should address significant events, conditions, risks, uncertainties, trends and contingencies that may affect future operations.

★ 030102. For many readers (e.g., nonaccountants), the Overview serves as the only opportunity to make the technical presentations lucid and useful. For many high-level decisionmakers, it must convey substantive information and conclusions when time does not permit those individuals to make an in-depth analysis of the technical information. The Overview must give readers a clear and concise description of the reporting entity and its mission, an understanding of its activities, program and financial performance, systems, controls, legal compliance, financial position, and financial condition. In addition, the Overview should tell the reader how well that mission is being accomplished and what, if anything, must be done to improve either program performance or financial performance. The Overview should be a collaborative effort of the financial management offices and the program offices.

030103. To accomplish its purpose, the Overview must do more than summarize the information contained in the Principal Statements. The preparer of the Overview must consider and select performance measures and data relevant to the reporting entity’s mission and activities; analyze the data and discern what they disclose about the entity’s accomplishments or lack thereof; determine whether and why the results might vary from prior year results, established standards or the results of similar entities; display this information in creative ways; and write succinct, candid narratives. Moreover, in preparing the Overview, the preparer shall consider not only program performance, but also financial performance and the relationship of program performance to the reporting entities financial condition and results. The preparer shall develop and retain adequate documentation supporting the financial, statistical, and other information presented in this Overview section.

030104. The Overview shall incorporate the strategic initiatives of the Department of Defense (DoD) as provided in the Secretary’s “Annual Report to the President and the Congress.” The presentation should relate to the general goals and objectives for the Component’s major functions; identify the resources, systems, and processes that are critical to achieving these goals; specify how the general goals and objectives will be achieved; and describe key external factors that could affect achievement of those general goals.

★ 030105. At a minimum, the Overview shall contain sections that address the entity's mission and organizational structure; performance goals, objectives, and results; financial statements; and systems, controls and legal compliance. Because the Overview must be concise if it is to be useful, Component senior managers shall select the most important matters to discuss. Consequently, some issues that are material to the financial statements, notes, and other sections of the audited financial statements may not be discussed in the Overview.

★ 030106. The Overview shall describe only the "vital few" matters (i.e., the most important matters that probably will affect the judgments and decisions of those who rely on the audited financial statements as a source of information). Matters to be discussed and analyzed are those that may: lead to significant actions or proposals by top management; be significant to the managing, budgeting, and oversight functions of the Congress and the Administration; or significantly affect the judgment of citizens about the efficiency and effectiveness of their federal government.

★ 030107. The Overview shall identify critical areas in need of financial and management improvement, and address corrective actions. Actions needed, taken, or planned may be discussed within the sections outlined in section 0302 of this chapter, or in a separate section of the Overview.

030108. The Overview shall include a narrative discussion and analysis of the financial condition of the reporting entity. This discussion shall present information based on the results of an analytical review of relevant financial and performance data of the programs, activities and funds that make up the reporting entity.

★0302 ORGANIZATION AND PRESENTATION OF THE OVERVIEW

The following is the recommended format to organize and present the Overview.

030201. Message from the Component Head. Include a message from the Component head or designated individual that discusses, at a high level, the Component's mission, performance results, and financial condition. A Supplementary message from the Component's senior financial manager may be included.

030202. Description of the Reporting Entity. This section should:

A. Name the reporting entity in a clear manner that leaves no doubt as to whether the reporting entity is an entire Component or an activity or group of activities within the Component. Identify the commercial functions and the revolving, trust, and other fund accounts covered by the financial statement.

B. State the mission and major goals of the reporting entity, including reference to the entity's legislative mandate, if appropriate.

C. Identify the type and provide information on the numbers of individuals and/or groups who are served by or benefit from the entity's major program(s).

D. Identify indicators of the size of the major program(s), e.g., dollars expended, population served, and the numbers of military and civilian personnel employed in carrying out the major program(s).

E. Describe the manner in which the reporting entity is organized to provide the major program(s), including information related to the geographic locations of the organization (e.g., numbers of local, district, state, and regional offices).

★ 030203. Performance Goals, Objectives, and Results. This section should:

★ A. Express the entity's program and financial results in terms of relevant measures that disclose the extent to which its programs are achieving their intended objectives. The entity's financial results should be summarized in a manner that would illustrate significant indicators of its financial operations for the reporting period and changes in financial condition during the period.

★ B. Strive to develop and report objective measures that, to the extent possible, provide information about the cost effectiveness of programs. Measuring costs is an integral part of measuring the efficiency and effectiveness of programs. Efficiency is measured by relating outputs (i.e., the quantity of services provided) to inputs (i.e., the cost incurred to provide the services). Effectiveness is measured by the outcome or the degree to which a predetermined objective is met, and it commonly is combined with the cost information to show "cost effectiveness."

★ C. Report measures of program and financial performance that are consistent with information on major goals and objectives from the entity's strategic plan and to the programs featured in the Statement of Net Cost. To be useful, performance measures should: be clearly set forth, be objective and quantifiable, be meaningful and relevant, relate to measures developed in the entity's strategic planning processes, and present the outputs and outcomes of the program, not just the inputs or processes of the program.

★ D. Include both positive and negative results (if warranted), reflect historical and future trends (if possible), illustrate with charts and graphs (whenever possible) for easy identification of trends, explain the significance of the trends, provide comparison of actual results to goals or benchmarks, show variations from goals and plans, and identify other explanatory information that would help readers understand the significance of the measures, results, and any variations from the goals or plans.

★ E. Include an explanation of what needs to be done and what is planned to be done to improve financial program performance, to further enhance the usefulness of the information.

★ F. Relate the performance measures presented in the Overview to the purpose and goals of the entity. The performance measures presented shall be consistent with measures previously included in budget documents, and the programs presented in the Statement of Net Cost. The measures in the Overview shall be limited to the entity's most significant program and

financial measures. Additional measures shall be presented as “Other Accompanying Information.” Component senior managers have broad discretion in the manner in which performance information is displayed. Among the options available to management is a statement format similar to the Statement of Program Performance Measures illustrated in Statements of Federal Financial Accounting Concepts No. 2. Management’s display of performance information shall include sufficient explanatory information to help readers understand the significance of the measures, the results, and any deviations from goals or plans.

★ 030204. Financial Condition. This section shall:

★ A. Include the following provision, verbatim, for all DoD reporting entities for fiscal year (FY) 2000:

The financial statements have been prepared to report the financial position and results of operations for the entity, pursuant to the requirements of Title 31, United States Code, section 3515(b).

While the statements have been prepared from the books and records of the entity, in accordance with the formats prescribed by the Office of Management and Budget, the statements are in addition to the financial reports used to monitor and control budgetary resources which are prepared from the same books and records.

To the extent possible, the financial statements have been prepared in accordance with federal accounting standards. At times, the Department is unable to implement all elements of the standards due to financial management systems limitations. The Department continues to implement system improvements to address these limitations. There are other instances when the Department’s application of the accounting standards is different from the auditor’s application of the standards. In those situations, the Department has reviewed the intent of the standard and applied it in a manner that management believes fulfills that intent.

★ B. Include the following provision, verbatim, for all DoD reporting entities that have National Defense property, plant and equipment (ND PP&E) stewardship information to report for FY 2000:

As of the date that these statements were prepared, the Federal Accounting Standards Advisory Board (FASAB) had not determined the final reporting requirements for ND PP&E. Therefore, the Department elected to report ND PP&E in fiscal year (FY) 2000 in a manner similar to how it was reported in FY 1998 and FY 1999. The Department implemented early for FY 1998, as encouraged by the FASAB, the then proposed amendments to the accounting standards that required the reporting of quantities, condition and investment trends for major types of ND PP&E. At subsequent FASAB meetings, the Board chose not to implement the proposed amendments to the SFFAS No. 6, “Accounting for Property, Plant and Equipment,” and SFFAS No. 8, “Supplementary Stewardship Reporting,” but, rather, chose to continue studying

various alternatives for reporting ND PP&E. These studies were ongoing in FY 2000.

Since the FASAB did not adopt the proposed amendments, the Department is not in full compliance with the existing reporting requirements that require the Department to report the value of ND PP&E. The Department cannot fully comply with the existing reporting requirement, because many of the Department's ND PP&E accountability and logistics systems do not contain a value for the ND PP&E assets. These systems were designed for purposes of maintaining accountability and meeting other logistics requirements, and not for reporting the value of ND PP&E.

Given the complexity of the existing temporary reporting requirements, the enormous cost of implementing those temporary reporting requirements and the interim nature of the temporary reporting requirements, the Department is continuing to use the prior year reporting disclosure. Further, the Department believes the most reasonable and responsible course of action is to report quantity and investment information for ND PP&E until such time that the FASAB adopts permanent reporting requirements.

★ C. Describe significant variations from prior year financial statements or other relevant DoD planning documents, to the extent it is relevant and important to the reporting entity.

★ 030205. Systems, Controls, and Legal Compliance. The systems and controls discussed in this section are those that support reporting on financial and operating performance as well as compliance with applicable laws. This section should tell the reader whether internal controls (accounting and administrative) are adequate to ensure that:

★ A. Transactions are executed in accordance with budgetary and financial laws and other requirements, consistent with the purposes authorized, and are recorded in accordance with federal accounting standards.

★ B. Assets are properly acquired and used, safeguarded to deter theft, accidental loss or unauthorized disposition, and fraud.

★ C. Performance measurement information is adequately supported.

0303 OTHER ACCOMPANYING INFORMATION

The other accompanying information section of the audited financial statements follows the Required Supplemental Information Section of the statements. This section should contain, when appropriate, supplemental financial and management information that supports other presentations in the Overview or which otherwise would enhance an understanding of the financial condition and operations of the reporting entity. At a minimum, this information should include a detailed list of appropriations, funds, and accounts included in the financial

statements. Additional performance information not reported in the Overview, as well as Foreign Military Sales activity, also could be reported as “Other Accompanying Information.”